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## In Case You Missed It ... A Feasible Fix for Social Security

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"Reform without personal accounts, or with tiny personal accounts for top earners, isn't real reform. With the establishment of personal accounts, progressive indexing won't mean a benefit cut for middle and upper earners. In its entirety, Bush's proposal would simply shift massive future liabilities from the government to the free market.

"...look at a unionized bus driver, who steadily earns the average American wage, about \$37,000 a year, throughout his 44-year career. He contributes about \$239,800 to Social Security during those years—and, for 12 years after retirement, can expect to receive \$19,500 a year, for a total of \$234,000 back. He loses a tiny bit of all that money each year over all those years, but his adult children get nothing back for all his hard work should he die a widower at 70. (Of course, if he dies early and leaves behind a wife who made less than he did during her own working years, she'll receive a survivor's benefit.) This is a far cry from the myth of a safe retirement program designed for and embraced by the middle class.

"But now let's throw well-structured personal accounts into the mix...our average-guy bus driver, who could expect to leave \$123,600 to his heirs, even if he chooses to supplement his traditional Social Security benefit with a modest withdrawal of income from his personal account of an extra \$3,700 a year. His traditional benefit would be cut by about \$3,300, to about \$16,200 a year. But the extra income from the personal account, not to mention the inheritable asset, would more than make up for the cut. All told, including the personal account, he would be getting back 33 percent more than he put in. ...

"Bush's plan for personal accounts doesn't envision letting Americans gamble their Social Security money on, say, biotech stocks. Workers could only invest in a small selection of conservatively diversified funds, like those available to federal workers under the Thrift Savings Plan. A full 20 years before a worker retires, his personal account would automatically start to shift into ever-less-risky investments—from a larger percentage of high-quality stocks into a larger percentage of high-quality government bonds, for example, as each year passes—to protect him from market volatility as he approaches retirement.

"These sophisticated financial instruments-called 'life-cycle funds'-tailored at low cost to fit the needs of masses of middle-income workers, just weren't available 30 years ago. But they are now, and it's foolish not to take advantage of advances in information and financial technology to ease our collective Social Security burden without forcing undue risk onto individual workers and retirees.

"Progressive indexing would also protect and expand Social Security's original mission: 'By providing more generous benefits for low-income retirees, we'll make this commitment,' Bush said in April. 'If you work hard and pay into Social Security your entire life, you will not retire into poverty.' ...

"Progressive indexing, even with modest personal accounts in the mix, would solve much of Social Security's long-term solvency problem. The only other way that politicians could fund Social Security, without increasing general taxes sharply, would be to raise the payroll tax on earners drastically (as they have nearly two dozen times over 70 years, from an original 2 percent to today's 12.4 percent) or to hike the \$90,000 earnings cap for Social Security taxes drastically."

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